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What the Items of a Bank Statement Mean

Guaranty Trust Company
of New York

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What the Items of a Bank Statement Mean

NATIONAL BANKS are required to publish financial statements five times a year, and in many States such statements must be published by State Banks and Trust Companies as often as four times a year. Although bank statements, in detail, are published in certain officially designated newspapers, the customary form of publication is a condensed statement, of which the following statement of Guaranty Trust Company of New York as of September 30, 1920, is typical:

RESOURCES

Cash—On Hand and in Banks	$111,306,421.14
Exchanges for Clearing House	70,921,949.74
Loans and Bills Purchased	521,477,002.28
U. S. Government Bonds and Certificates	33,262,404.09
Public Securities	30,405,706.50
Other Securities	45,154,659.21
Bonds and Mortgages	2,335,950.00
Foreign Exchange	21,446,069.24
Credits Granted on Acceptances	63,684,741.70
Real Estate	8,529,075.37
Accrued Interest and Accounts Receivable	12,281,276.95
	$920,805,256.22

LIABILITIES

Capital	$25,000,000.00
Surplus Fund	25,000,000.00
Undivided Profits	10,754,227.55
	$60,754,227.55
Notes and Bills Rediscounted with Federal Reserve Bank	19,050,000.00
Notes Secured by Liberty Bonds Rediscounted with Federal Reserve Bank	24,917,200.22
Due Federal Reserve Bank against U. S. Government Obligations	5,000,000.00
Outstanding Dividend Checks	1,043,540.50
Outstanding Treasurer's Checks	30,617,242.94
Sundry Foreign Accounts	14,195,250.19
Acceptances—New York Office	49,974,979.70
Foreign Offices	13,709,762.00
Accrued Interest Payable and Reserves for Taxes, Expenses, etc	8,982,767.52
Deposits	692,560,285.60
	$920,805,256.22

Capital, Surplus, Undivided Profits

In any financial statement the "Resources" give a description and valuation of the assets available for meeting liabilities. The fact that the total of the liabilities is exactly equal to the total resources is due to the fact that the excess of resources over liabilities to various creditors and depositors, consisting of Capital, Surplus and Undivided Profits, belongs to the stockholders, and, therefore, is shown on the statement as a liability, thus equalizing both sides.

To Meet Liabilities

In the case of liquidation, however, stockholders do not receive anything until all other liabilities have been paid in full. Under Federal law, and the banking laws of most States, stockholders of banks and trust companies are also liable to an additional assessment, if necessary to meet liabilities, equal to the par value of their stock. In the foregoing statement the stockholders' investment is $60,754,227.55, and as their additional liability, equal to the par value of the capital stock, is $25,000,000, there is a protection for depositors and other creditors equivalent to $85,754,227.55. In other words, all assets could be liquidated for that much less than the valuations shown on the statement, and there would still be sufficient to pay all depositors and creditors in full.

Additional Protection

Bank depositors, however, are usually further protected by conservative institutions carrying bank buildings and real estate at cost, or less than cost, even though the market value may have increased materially, and in writing off the cost of furniture and fixtures to Profit and Loss or Expense, also in creating reserves for possible bad debts or decrease of value of investments in securities through market fluctuations. This policy

naturally creates dormant reserves, which, in case of liquidation, should make the assets realize more than is shown on the statement.

The deposits of a commercial bank are subject to check, and, to enable it to meet current demands, a certain amount must be kept in the form of cash, and its investments should be of the self-liquidating kind and of short maturity.

Total Cash Position

It will be noted from the statement that "Cash—On hand and in Banks," the latter being subject to check, amounts to $111,306,421.14, and "Exchanges for Clearing House," representing checks which will be settled through the Clearing House the following morning, amount to $70,921,949.74 or a total cash position of $182,228,370.88. This is much more than sufficient to meet the daily demands of depositors having total deposits of $692,560,285.60, but, under Federal and State laws, bankers are required to keep a certain minimum cash reserve on hand or with banks.

Funds for Meeting Demands

The largest single item of investment represents "Loans and Bills Purchased," amounting to $521,477,002.28. Such loans and bills are usually for demand or of 90 days' dura-

tion or less, and, as loans are being made daily, there are daily maturities which supply the bank with funds for meeting demands against it, or for making new loans. As far as possible, the loans are made eligible for rediscount at the Federal Reserve Bank.

United States Obligations

The banks of the country were a most important factor in war financing, both in purchasing United States Government Bonds and Certificates for their own account and in lending to customers money with which to purchase Government bonds. The $33,262,404.09 United States obligations shown in the statement represent the portion held by the Company and are used principally for capital investment purposes. It is also customary to carry some of the bank funds in other investment securities to diversify the resources and produce a more even rate of earnings under varying conditions.

Investment in Securities

Many banks have well-equipped bond departments which do an investment banking business and when such a department is maintained the amount invested in securities is, of course, much larger than in the case of a bank doing a purely commercial business. In the statement shown the total investment

in securities is $108,822,769.80. Some of these are short-term notes, while others are long-term bonds, but high grade securities are always readily marketable and can be realized upon in a comparatively short time if funds are required for other purposes. "Bonds and Mortgages," representing loans on real estate, usually are not carried in large amounts by banks doing a commercial business.

Foreign Exchange

"Foreign Exchange" of $21,446,069.24 in the statement is principally items in transit representing drafts, bills of exchange, etc., which have been purchased in the ordinary course of business. A bank doing an international business is called upon by its bank and other depositors for funds to make payments abroad, and such funds are principally acquired by purchasing from exporters the bills that they draw against shipments abroad.

Credit Granted On Acceptances

The Resources side of the statement shows "Credit Granted on Acceptances," $63,684,741.70, and it will be noted that the total of "Acceptances" on the liability side is exactly the same amount. When a bank accepts a draft drawn upon it in connection with a Commercial Letter of Credit, or otherwise, it assumes a liability to honor the acceptance at

maturity, thus creating a liability which must appear in the statement, while, against this liability, the bank holds the obligations of its customers to provide the funds at maturity, and this obligation of the bank's customers appears in the statement under the caption "Credit Granted on Acceptances." Other liabilities of the bank in connection with international transactions are reported under "Sundry Foreign Accounts," as in the statement shown $14,195,250.19.

Rediscounts with Federal Reserve Bank

Prior to the enactment of the Federal Reserve law, the means of securing credit beyond a given point were very much restricted and consequently required a much greater cash reserve to provide against contingencies. Under the present law the cash reserves are lower and a bank can rediscount eligible notes and bills of its customers with the Federal Reserve Bank, thereby providing greater elasticity in time of need and releasing for circulation a large amount of cash which was previously locked up to meet contingencies which might arise. As rediscounting is subject to the restrictions contained in the Federal Reserve Act, and regulations promulgated by the Federal Reserve Board, there are limitations, consistent with safe and conservative banking, on the use that can be made of

these rediscount facilities. In this statement rediscounts total $43,967,200.22 or only slightly more than 8% of the total of "Loans and Bills Purchased," while of the amount borrowed $24,917,200.22 represent rediscount of loans made to customers carrying Liberty Loan Bonds.

Outstanding Dividend and Treasurers' Checks

Outstanding Dividend Checks of $1,043,-540.50 represent dividend checks of the Company payable on September 30th not yet been presented for payment; and "Outstanding Treasurer's Checks" of $30,617,242.94 represent checks on the Company that have been issued to customers who desire to make remittances in that manner, checks issued for the proceeds of loans, and those issued in payment of company liabilities and expenses.

Accrued Interest and Accounts Receivable

In order to show a true statement of condition at any time, it is necessary to accrue interest, expenses, taxes, etc., as of the date of the statement. "Accrued Interest and Accounts Receivable" are shown in the Resources side of the statement as $12,281,-276.95, and "Accrued Interest Payable and Reserves for Taxes, Expenses, Etc." on the

Liabilities side as $8,982,767.52. In other words, resources accrued to the date of the statement, but not collected, exceed accrued liabilities by $3,298,509.43.

Deposits

The largest single item in the liabilities of any bank is, of course, "Deposits," which in this statement are shown as $692,560,285.60, and which represent both time and demand deposits, trust funds, deposits, etc. The amount of reserve held against time deposits is less than that held for demand deposits and, consequently, money on time permits of a higher rate of interest to the depositor.

Foundations of Strongest Banks

Bank statements show the financial condition of the bank at any given date, but a comparison with previous statements is necessary to ascertain the progress that is being made. In addition to examining statements of his bank, however, a depositor should inquire into its administration, its management, and the service that it renders. Sound policies, a broad vision of modern financial needs, efficient management, and facilities for serving its depositors in their financial affairs are the foundations on which the strongest banks are built.

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